EXHIBIT 30

S&P Global
Market Intelligence

JELD-WEN Holding, Inc. NYSE:JELD

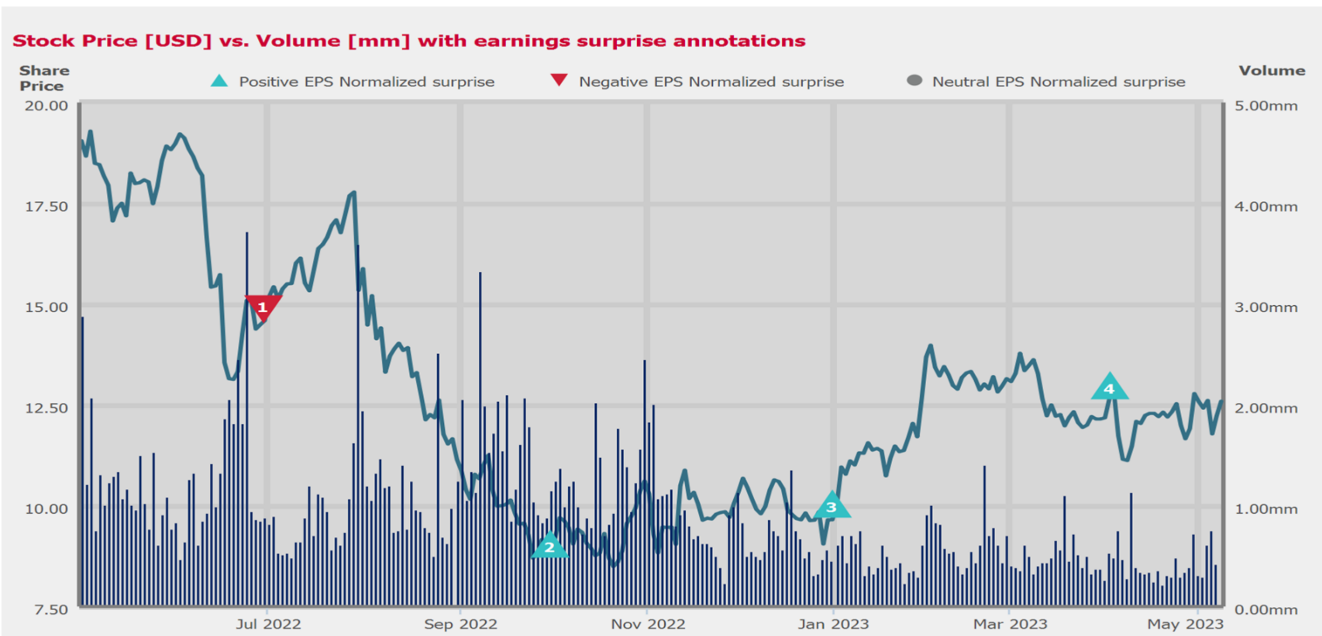
FQ1 2023 Earnings Call Transcripts

Tuesday, May 09, 2023 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.06	0.35	▲483.33	0.30	0.92	1.58
Revenue (mm)	1103.90	1222.60	▲10.75	1217.93	4724.46	4807.17

Currency: USD
Consensus as of May-09-2023 4:55 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	0.65	0.57	▼1 (12.31 %)
FQ3 2022	0.44	0.71	▲2 61.36 %
FQ4 2022	0.25	0.47	▲3 88.00 %
FQ1 2023	0.06	0.35	▲4 483.33 %

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EXECUTIVES

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Executive VP & CFO

William J. Christensen
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ANALYSTS

Andrew Azzi
JPMorgan Chase & Co, Research Division

Charles Perron-Piché
Goldman Sachs Group, Inc., Research Division

John Lovallo
UBS Investment Bank, Research Division

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

Michael Glaser Dahl
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Philip H. Ng
Jefferies LLC, Research Division

Steven Ramsey
Thompson Research Group, LLC

Trevor Scott Allinson
Wolfe Research, LLC

Presentation

Operator

Thank you for standing by. My name is Kayla Baker, and I will be your conference operator today. At this time, I would like to welcome everyone to the JELD-WEN Holding, Inc. First Quarter 2023 Earnings Conference Call. [Operator Instructions] After the speaker's remarks, there will be a question and answer session. [Operator Instructions]. I would now like to turn the call over to the Vice President of Investor Relations, James Armstrong.

James Armstrong

Thank you, and good morning. We issued our first quarter 2023 earnings release last night and posted a slide presentation to the Investor Relations portion of our website, which can be found at investor.jeld-wen.com. We will be referencing this presentation during our call.

Today, I'm joined by Bill Christensen, Chief Executive Officer; and Julie Albrecht, Chief Financial Officer. Before I turn it over to Bill, I would like to remind everyone that during this call, we will make certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to a variety of risks and uncertainties, including those set forth in our earnings release and provided in our Forms 10-K and 10-Q filed with the SEC. JELD-WEN does not undertake any duty to update forward-looking statements, including the guidance we are providing with respect to certain expectations for future results.

Additionally, during today's call, we will discuss non-GAAP measures, which we believe can be useful in evaluating our performance. Presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. A reconciliation of these non-GAAP measures to their most directly comparable financial measures calculated under GAAP can be found in our earnings release and in the appendix of our earnings presentation.

With that, I would like to now turn the call over to Bill.

William J. Christensen
CEO & Director

Thank you, James, and thank you, everyone, for joining our call today. I'm happy to report that we are making solid progress on our short-term measures to simplify the business, improve our cost structure and strengthen our balance sheet. Thanks to our employees around the world, our first quarter came in better than we expected. During the quarter, we reduced costs while improving service to our customers, all during a very uncertain macro environment.

Turning to our first quarter highlights on Slide 4. We began the year with both sales and earnings coming in above our expectations. During the first quarter, demand was down year-over-year, however, not as soft as expected, and we outperformed our plan for price/cost. We also took steps to rightsize our inventories while still improving customer satisfaction metrics like on-time, in-full deliveries. Julie will talk more in depth about our financial performance in a few minutes.

Turning to Slide 5. We continue to focus on a 2-pronged approach, paying close attention to both the short as well as the long term with the transformation framework structured around people, performance and strategy. We're making good progress in strengthening the foundation of our business with an emphasis on both culture and capabilities. This is augmented by the active deployment of value creation plans to deliver on margin expansion through operational and organizational efficiency initiatives.

We are pushing down line of business accountability, rationalizing our global footprint and establishing detailed improvement targets around our sourcing and commercial excellence activities. And finally, we are focused on delivering improved cash flow to fund the value creation projects that will support our margin improvement. We are planning to focus future investments in areas such as factory automation,

demand management and digital commerce. We're also developing a plan to deliver more consistent profitable growth.

As I have said before, we need to simplify our long-term strategy, establishing clear deliverables designed to drive improved market performance and shareholder returns while giving customers more of what they value. Although we are not insulated from the weakening macro conditions in housing across the globe, we are gaining momentum from actions we already have in progress.

One of the most significant near-term actions we have taken relates to our Australasia business, and this is seen on Slide #6. On April 17, we announced the completion of our strategic review, resulting in a sale to Platinum Equity for approximately AUD 688 million. This was an important step towards executing our near-term strategy of simplifying our business and strengthening our balance sheet. We plan to use the net proceeds of approximately USD 450 million to repay debt and expect our leverage to be below 3x net debt to EBITDA on a pro forma basis by the end of this year.

In addition, we expect minimal tax leakage and anticipate the deal closing in the third quarter. I personally want to thank our entire Australasia team for their continued hard work. We have an active separation management office which is currently working with Platinum Equity on the transition plan and relevant closing details.

Last quarter, we noted that we are focused on strengthening the foundation. And on Slide 7, you see the 3 key areas for our work. We have a tremendous amount of activity underway that we expect will deliver notable profitability improvements in the near and medium term. Our teams are consolidating numerous ideas that range from just do it improvements to more complex projects that are run through a review process and then sequenced. Knowing that we are in the early days of improving our profitability, I wanted to provide some insights into a few of the projects that are helping drive approximately $100 million in lower costs in 2023. These activities are incremental to actions we've already taken in late 2022 and early this year to improve our cost base across our operations and in SG&A.

First, we're improving our operating efficiency and driving cost out of the system. For example, we have recently started to implement a centralized logistics program in North America that will allow us to better optimize our transportation network and improve shipment visibility for us as well as our customers. This program, we expect to drive $15 million of annual cost out of our system.

Further, we are scoping similar programs that leverage the enterprise to reduce costs through sourcing and centralized order and supply chain management. Second, we are focused on commercial excellence throughout the organization. In Europe, we are reviewing our go-to-market structure, including people, process and systems as well as end markets served. Expected results include sales and customer service efficiency targets as well as country level details to better calibrate pricing actions.

Finally, we continue to optimize our network footprint, which includes improving how we plan and execute our production. In North America's interior door business, we have reallocated production to sites to be closer to customers and to optimize production efficiencies. As we move forward, we anticipate expanding such opportunities across additional product categories.

Additionally, in another step towards rationalizing our footprint in January of this year, we announced the ongoing closure of Atlanta doors facility, which we expect to deliver cost savings of about $11 million annually. As you can see from these examples and our results in the quarter, we are focused on delivering cost reduction and profit improvement initiatives.

To reiterate, these are a few of the projects we are working on to drive improved performance, and I look forward to sharing more examples in the quarters and years to come. As we implement our plans laid out on Slide 8, we have significant self-help opportunities that we expect to drive improved performance in the quarters and years to come. We are in the process of setting clear targets with well-defined value creation plans and will actively monitor them to ensure accountability.

As we develop these plans, we are focusing on investment returns and a longer-term runway of innovation to drive future growth. On capital allocation, we remain committed to reducing our leverage below 3x, which we expect to achieve on a pro forma basis by the end of this year and includes the completion of

our pending Australasia divestiture. We are also prioritizing investing in strong payback projects to further improve profitability.

And finally, we continue to focus on transparency with investors to help you understand the drivers and underlying fundamentals of our business. We are underway with developing our long-term goals. We're also committed to sharing more information when appropriate and giving mile markers to these goals so you can evaluate our progress along the way.

However, in the near term, our focus is on detailing our transformation plan that will reduce operating costs, rationalize our footprint, improve our commercial excellence and deliver on the large actions that we have already laid out.

I'll now hand it over to Julie to discuss our detailed financial results.

Julie C. Albrecht
Executive VP & CFO

Thanks, Bill. Turning to Slide 10, you see our consolidated results for the first quarter of 2023. As a reminder, all of our first quarter financial results include Australasia as the announced sale with the subsequent event to the quarter end. We delivered both sales and earnings that were ahead of our internal expectations, mostly driven by volume and price cost results that were better than our original outlook.

More specifically, market conditions in North America benefited our top and bottom line results, while lower cost inflation in Europe was a tailwind for earnings. Our first quarter revenue was approximately $1.2 billion, up 4.4% from year ago levels. Our core revenue growth was a solid 7%, while foreign exchange translation had an adverse top line impact of 3%. I'll provide additional comments about our first quarter sales versus the prior year when I cover the next slide.

Our adjusted EBITDA was approximately $94 million in the quarter, leading to an adjusted EBITDA margin of 7.7%. With our margin improvement year-over-year and sequentially, we view this as a validation of our near-term cost reduction activities. In a few minutes, I'll provide more color about the drivers of our year-over-year EBITDA improvement.

On Slide 11, you see that our increased first quarter revenue was driven by higher selling prices that added 10% to sales year-over-year, which primarily reflects our price increases in the second half of 2022 to offset cost inflation. Our volume mix declined by 3% with a further negative 3% impact from foreign exchange translation. You'll find a first quarter revenue walk, including segment details in the appendix of our earnings presentation.

On Slide 12, we have added a new adjusted EBITDA bridge to improve transparency for our investors. Year-over-year, our adjusted EBITDA improved by approximately $14 million, driven by positive price cost and productivity gains that were partially offset by reduced volume mix and headwinds from nonrecurring other income and realized foreign exchange gains.

As inflation continues to be a major topic, I want to give you more detail on what we have experienced. During the first quarter of this year, we recognized an increase of approximately $70 million in total cost inflation compared to the prior year period. Of this, approximately 85% was driven by raw materials, energy and freight costs with the remainder driven by labor. While our total material and labor inflation were in line with our expectations, we experienced lower inflation rates in energy, mostly in Europe and in outbound freight in North America.

Moving to our segment results on Slide 13. In the first quarter, our North America segment generated $768 million of sales, up 6% from year ago levels. Additionally, the segment had adjusted EBITDA of $79 million, up 18% year-over-year, while margins increased a solid 100 basis points to 10.3% driven by positive price/cost results.

While demand was down year-over-year, first quarter market conditions were better than expected and our sales mix improved year-over-year, all of which supported North America's top and bottom line results.

Specifically, interior doors, wood windows, VPI and LaCantina performed well, as did our Canadian business. Meanwhile, we experienced some softness in the vinyl window market, and weather negatively impacted the West Coast market.

We've delivered a number of operational efficiency improvements in North America. Examples include being more proactive with flexing our operations to meet demand to implementing standardized and data-driven processes to reduce inventory levels. These improvements positively affected first quarter results driving both improved cash flow from inventory reduction and an 8% year-over-year improvement in units per labor hour.

Europe generated $312 million in revenue and $18 million in adjusted EBITDA. Adjusted EBITDA was 20% higher year-over-year, leading to 110 basis points of EBITDA margin improvement due to positive price cost and productivity gains. Core revenues increased in the quarter driven by higher price realization of 10%, partially offset by lower volume mix of 7%. And in addition, Europe had a negative top line impact of 6% from foreign exchange translation.

During the quarter, Europe continued to suffer from weak macroeconomic conditions across most of the region. New residential construction rates are down 15% to 30% depending on the country. However, we have had opportunities to capture market share as certain suppliers in the region have struggled to serve customers. And in addition, despite the headwind from lower volumes, Europe delivered improved productivity from operational excellence initiatives focused on both labor and material savings.

Australasia had solid first quarter results reporting revenue of $142 million and adjusted EBITDA of $13 million with margins at 8.9%. As a result of the announced sale of our Australasia business, this segment will move to discontinued operations, and this will be the final quarter we break out its segment detail within our continuing operations.

Now turning to the market outlook on Slide 14. We've updated our outlook to exclude Australasia, but it is very similar to what we expected at the beginning of this year. In North America, higher interest rates continue to impact single-family starts and permits, and we expect new construction declines of 15% to 20% year-over-year as well as a decline in repair and remodel activity at a mid- to high single-digit rate. All of this combines for an expected low double-digit reduction in volume for our North America business consistent with the outlook we discussed in February.

In Europe, which is also consistent with our previous outlook, we anticipate that demand will be down by high single digits as the market remains soft due to the region's ongoing macroeconomic challenges. On the residential side, we see declines of 15% to 30% in new residential construction depending on the country.

Commercial construction is expected to be flat in the near term. Construction on current projects has continued, but there is evidence that new commercial projects are being delayed or put on hold in a number of markets, which may impact demand in the medium term.

On Slide 15, we provide our updated full year 2023 outlook for sales and adjusted EBITDA. Our updated outlook accounts for our stronger-than-anticipated first quarter results and ongoing cost reduction activities while also removing the Australasia segment from our continuing operations. We've included a slide in the appendix of our earnings presentation that shows how the Australasia divestiture impacts our guidance change.

When we gave our original outlook in February, we were prudently cautious and we remain so given the continued uncertainty in the operating environment. We now expect full year 2023 revenues to be between $4 billion and $4.4 billion, and full year adjusted EBITDA to be between $330 million and $370 million. After removing Australasia from continuing operations, we are raising the midpoint of our adjusted EBITDA guidance by $30 million.

Now turning to Slide 16. You can see how our first quarter results combined with our outlook for the remainder of this year to result in our updated 2023 full year guidance, again, reflecting our Australasia segment as a discontinued operation.

As I've described in my comments this morning, our first quarter volume mix and price costs were better than our expectations. However, we do remain comfortable with our original outlook for the balance of this year based on what we know today. Our updated sales guidance reflects our expectation that core revenue is down 4% to 8%, driven by the low double-digit reduction in demand that I've described, partially offset by carryforward price realization.

Our revised EBITDA guidance reflects the impact from lower volume mix, which drops through at a 25% to 30% decremental margin. Most of this earnings headwind is expected to be offset by both new and ongoing productivity and cost savings actions as well as slightly improved price cost results versus our original guidance. Due to the strong EBITDA in the first quarter and excluding Australasia, we now anticipate first half and second half EBITDA to be split roughly equally.

Now shifting to cash flow. We remain keenly focused on improving our cash flow generation over our 2022 results. In addition to generating high-quality earnings, each segment continues to actively work on its action plan focused on reducing our net working capital by at least $100 million, with more than half of this coming from inventory reduction.

I'll now turn it over to James to move to Q&A.

James Armstrong
Thanks, Julie. Operator, we are now ready to begin Q&A.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of John Lovallo with UBS.

John Lovallo
UBS Investment Bank, Research Division

First one is how should we think about the cadence of the cost savings realizations from the $100 million of programs that you put in place? So sort of the timing of the realization there. And also, it appears that $50 million was attributable to the first bucket. Just curious how the second 2 buckets were split out.

William J. Christensen
CEO & Director

Yes. So John, thanks. Julie can go into some of the details. As we talked in the Q4 call, this is obviously a combination of what we started last year, which is rolling forward into 2023, but also additional measures.

We gave a couple of examples today in the prepared remarks. The Atlanta closure, some of the things we're doing around managed transportation and our freight systems in North America. So those are things, obviously, that are being realized as we speak and will have an impact in the year. Julie can talk through kind of some of the buckets and more of the detail on that.

Julie C. Albrecht
Executive VP & CFO

Yes, sure. Yes. Well, I guess, back to the first part of your question, as far as the phasing, I'd say that we're probably like 40-60 between first half and second half of the $100 million. So we're delivering roughly $20 million a quarter Q1 and Q2. And then that leaves again roughly 60% in the second half of the year.

And then when it comes to -- I think if you're looking at Slide 7, the 3 boxes there. I'd probably say it's 70-30 when it comes to improving operating efficiency, and that's both lower cost of goods sold as well as lower SG&A kind of from an expense perspective, and that leaves again in that optimizing the network between wrapping up the year-over-year benefits from the site closures of last year and then things we've already announced this year and things we're continuing to evaluate a potentially action in the second half of this year. All of that work -- that network footprint is roughly again, I'd say, around 30% of the reductions.

John Lovallo
UBS Investment Bank, Research Division

Okay. That's helpful. And then as you guys talked about new construction in the U.S. has held up better than the period, which should benefit you guys given your exposure there. What's your latest kind of what you're hearing from your builder customers in North America? And then quickly on Europe, curious how you're thinking about the consumer there? I mean, could there actually be a benefit to consumer spending given declining energy costs and still pretty good wage growth there? So just curious about those 2 markets and how you're thinking about the consumer?

William J. Christensen
CEO & Director

Yes, John. So it's -- obviously, it's a very mixed picture. I'd say builders in North America, you see different views. I was recently in the Southeast. There's strong demand expected through the building cycle. So I'd say the typical summer build and starts are progressing as expected, but there's obviously a geographic benefit to that region of North America.

Just when we look at it from a broader standpoint, there's still caution around for a couple of reasons. Number one, inflation is an issue and also affordability of homes is an issue. Just in general, we have higher interest rates, which are clearly creating more reflection on people when they start thinking about purchasing homes, and that adds to the affordability challenge.

And the third point is that there's, I think, mixed views on how long rates will stay where they are, and kind of the runway rolling forward is one of the things that we see creating some pretty significant views on how things will play out in the back half of the year in this market in North America. So it's very mixed. There's not one clear view. We remain very cautious. 15% to 20% down is what our view is, and that hasn't changed since the beginning of the year.

Europe is different. So there is still a risk that interest rates can and will go higher in Europe. There is still significant inflation. If you just think about labor inflation or inflation in certain Eastern European countries, which are delivering a lot of the products into the building product sector, that's double digit and has been there for a period of time. So we see starts in Northern Europe down as much as 30% or 40%. So some markets are really in pretty bad shape.

I think it's going to take a while for the consumer to really take a step back and figure out when will the turbulence in Europe decline. There's unfortunately no end in sight to the conflict in Ukraine. Energy costs and headwinds are softer than expected, which is good news. However, we need to remember Russia shut gas off last year in the summer, and this is now when the European Union needs to start reloading the reserves. So there's also an additional potential threat on energy that the gas reserves and the reload needs to be progressing as expected. So there's still a lot of uncertainty. And I think the general sentiment that we're seeing in Europe is people are cautious and waiting.

The good news is that commercial projects, as Julie noted, are still being finished because there's a pretty long gestation period. But the new projects are fewer, and the pricing activity around acquiring those projects is getting more competitive. So that's why we also remain very cautious in Europe for the back half of the year.

Operator

And the next question comes from the line of Susan Maklari with Goldman Sachs.

Charles Perron-Piché
Goldman Sachs Group, Inc., Research Division

This is Charles Perron in for Susan today. First, you maintained your volume mix guide for North America and Europe unchanged despite the better-than-expected first quarter volume versus what our expectations were. Have you seen any change maybe that leads you to be more cautious on the balance of this year? Or is it more conservative given like, obviously, the uncertainty out there in the market?

William J. Christensen
CEO & Director

Yes. So what I just said, based on John's question, I think kind of rolls into this question, where we are seeing some additional cloud on the horizon is in R&R in North America. Typically, summer is the building season, especially when we're looking at retail sellout and R&R volumes. And clearly, we're seeing limited destocking. We would actually expect loading of inventory in the channel at this point in time during the kind of preloading for the summer build, and we're not seeing that yet.

And we're seeing, obviously, retail partners that remain pretty cautious. There's a lot of signals out there, spend rates, savings, credit card bills, et cetera, that would lead us to believe that it's still going to be a pretty challenging R&R environment. So we feel that our expectations of kind of down mid- to high single digit is very reasonable, and we're seeing additional signals that would support that. So that's why we remain cautious in our expectation for the next, I'd say, 2.5 quarters of this year.

Charles Perron-Piché
Goldman Sachs Group, Inc., Research Division

Bill, and then following up on this R&R point that you just mentioned. Have you noticed any change in the tone from the channel partner about the stress in the banking system over the last month? And also the access for financing for windows and door projects, how important is this for basically for your end market? And do you have a sense of how much your end market products sold are financed versus paid cash more specifically?

William J. Christensen
CEO & Director

So maybe on the last point, I don't know. There's too many layers between us and the installs to really understand what's the financing mix of cash versus kind of a debt financing or mortgage. And it's hard for us to predict. Has the banking turbulence kind of rolled over into the retail space, I think you guys are probably closer to that from a macro view than we are. So I wouldn't want to comment on that.

I'd just say that retail partners are cautious. And typically, summer is a build season. We're not seeing that. And I think that ties into the macro environment. Interest rates are high. They're going to stay sticky for a while. Inflation is still a challenge. Affordability is an issue. So we don't see any direct impact or correlation currently.

Operator

The next question comes from the line of Matthew Bouley with Barclays.

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

North America, the volume mix down 3% in Q1. I just wanted to get a better sense of -- it's obviously a difficult operating environment out there. And so that as we just spoke about. It was a better result than I think most of us expected. And the genesis of my question is, what did drive that because we're trying to figure out as we go forward, what could be the potential upside or downside as we kind of build out the model through the year?

Julie C. Albrecht
Executive VP & CFO

Matthew, I'll start and then Bill can add some color. I mentioned in my comments already this morning that North America did have a positive impact from sales mix. And so when we look at their true volume decline, it was more in that like 6% to 7% down, which was still below our expectations for the quarter. But they were positively impacted by, call it, 2%, 3% from mix.

I mentioned in my comments, wood windows, VPI, LaCantina, some of our stronger performing products and lines had a pretty strong quarter in Q1, a little bit better than expectations. And so I think when you dig a little deeper, you do see that when we look at unit volumes and just volume dollars they were down kind of in that, call it, mid- to upper single-digit range, but positively impacted by mix to get us down to that net 3%.

William J. Christensen
CEO & Director

And Matt, let me just maybe add something in more on a broader level on what we're really trying to achieve here. We've talked a number of times about pushing down responsibility and authority into lines of business. So John Krause and his team in North America, Nigel Dilks and his team in Europe are really starting to get a couple of layers down into the organization, and we're identifying pockets and areas where our performance is actually strong.

But we're also seeing areas where we think we're maybe not at a level of competitiveness that we require. And so currently, we're saying, all right, how do we strengthen the areas that we're doing well? To Julie's point, wood windows is something where we have, I think, pretty appealing lead times right now. And some of the other players in the market are struggling. And this is an area where we know how to make wood windows exceptionally well, and we're good at it. So we really want to force those things. So this

is some of the things that are getting lower into the organization, gives us the ability to really start identifying with our teams in the different regions, what they really want to focus on and how we can drive that profitable growth and not just push everything out the door.

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

Got it. All right. Very helpful. Second one, the price -- the majority of that was the result of carryover from actions taken in the second half of '22. I'm curious additional pricing taken perhaps at the beginning of this year and sort of how we should think about pricing flowing through the model over the next 3 quarters?

William J. Christensen
CEO & Director

Matt, you dropped at the beginning of your question. Can you just repeat that for us, just so we're clear specific to what you're asking.

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

Yes. Sorry about that. So the price spend, I'm curious if there was additional pricing taken at the beginning of this year. I know you said most of it was from '22. And then how do we think about pricing over the balance of the year? .

William J. Christensen
CEO & Director

Yes. So it was carryover from '22 into '23, as we had signaled and anticipated in our Q4 call, if you remember. The second thing what we're doing is we're starting to look on the commercial excellence side in more details at specific countries, specific segments, just to make sure that we feel we're in the right position, number one, with the data and the visibility, but number two, with the pricing actions.

But there is very limited new price. Almost all of what's dropped in Q1 was carried through from 2022 pricing actions. And obviously, we're starting to get into the quarters where we're going to have pretty tough comps on the pricing side. So that's also something you need to kind of think through when we're looking at the back half of the year.

Operator

And the next question comes from the line of Steven Ramsey with Thompson Research Group.

Steven Ramsey
Thompson Research Group, LLC

Maybe you talked about in the past couple of quarters, portfolio pruning. Clearly, Australasia, a big move. And you had talked about some moves taken in the Europe segment. Can you talk about the benefits you've seen from pruning so far and how that builds into the second half?

William J. Christensen
CEO & Director

Yes. So obviously, with the Australasia strategic review, there was a couple of things that we wanted to achieve with that divestment. Number one was we wanted to make sure we have the right partner to continue the strong growth and really support the carve-out. So we wanted to have a partner who has done it and understands that, which we feel we found in Platinum Equity.

Number two, we wanted to delever and strengthen our balance sheet, which I think we will achieve once we close the transaction in the back half of this year or so in Q3. And the third point, obviously, we want to focus on our core regions. So that's North America and Europe, and there's a lot of opportunity to do things differently and better, we believe, in those 2 remaining regions.

So some of the things that we're already doing, and I'd say in a smaller dimension, we talked last year about closing some sites in Melton, U.K., which were window related, big drag to earnings. So those are closed and concluded. We're closing our Atlanta -- or we're in the process now of closing our Atlanta facility. That will have an impact. So some of the broader footprint actions that we're taking are going to help us strengthen the foundation. And we're more focused now on kind of the road ahead and how do we make sure that we have the right asset base with the right levels of investment to serve our customers.

And I said before, we're really pushing down into the line of business logic to make sure that the owners of these areas of the business, together with John in North America, Nigel in Europe, are letting us know what do they want to do to improve? Because clearly, we need to improve. We need to make sure also that we have capital available to fund those improvement projects. And so that's going to be a key focus for us in addition to delevering our balance sheet.

We're going to want to make sure that the free cash flow that we're generating, we're going to be able to invest in what are pretty attractive return profile projects this year, but also next.

Steven Ramsey
Thompson Research Group, LLC

Okay. Helpful. And then thinking about the guidance and how North America channel inventory effects that you talked about the lack of retail stocking thus far. Is that embedded in the guidance already that they do not restock? Or is there some rebuild of inventory in the retail channel. And similar, curious to hear how you think about distribution inventory. Will that channel run like through the year? Do you think they start to restock at some point to a greater degree?

William J. Christensen
CEO & Director

So it's all baked in is the short answer. The longer answer is, clearly, we remain cautious. There's a lot of uncertainty. We've gone through it in a number of different topics today, whether it be Europe or North America. Clearly, we're watching and monitoring the R&R channel closely, but the expectations of this kind of mid- to high single-digit down. That is baked into the guidance that we've shared with you last night.

So we're effectively focused on really controlling what we can control, and I feel we're doing a pretty good job coming off of Q1. Regarding distribution inventory, we're not expecting any significant changes and feel that it would be kind of matched to what our expectations are for volume down in the back half of the year. Of course, we have our homework to do, and we are balancing, obviously, labor loads in factories depending on where we see kind of stronger demand or weaker demand. So John, in North America and Nigel in Europe are doing a good job of kind of balancing cost to the market reality, which remains quite volatile.

Operator

Our next question comes from the line of Michael Rehaut with JPMorgan.

Andrew Azzi
JPMorgan Chase & Co, Research Division

Congrats on the quarter. This is Andrew Azzi on for Mike. I just wanted to ask if you could provide any more details on sales trends in the quarter and maybe in April between the traditional and retail channels between your businesses and then how does that help us think about sales growth in next quarter and the back half?

William J. Christensen
CEO & Director

So coming back to kind of where we're guiding. I mean, we're thinking that new construction is down 15% to 20% in North America. We were a little better than those expectations. Obviously, in Q1, for the topics that Julie has talked through on the price cost and we're controlling costs as we expected that we would

during the year. So it's tough for us to make a more detailed guide on a quarterly basis just because it's a very tough environment.

We do see and we've shared that, that clearly, cloud on the retail R&R horizon are here. And that's something that we're watching carefully because, obviously, that will have a big impact, not just on us, but I think on the economy in general in North America, we are seeing some strong pockets of growth.

We talked about wood windows. We talked about the Southeast region were clearly building continues to roll. So it's very mixed. Hard for us to kind of talk through in more detail on a quarterly basis what we see. But our volume, I mean, as we've said in the past, it's kind of mixed 50-50 between R&R and new construction. So that should give a pretty good feel on kind of where we think we'll end up at the end of the year.

Andrew Azzi
JPMorgan Chase & Co, Research Division

And then could you speak a little bit to the mix shift that you're seeing? And any noticeable change between customer and stock or anything you're expecting as the year goes by?

William J. Christensen
CEO & Director

I'd say nothing significant on the mix side. The -- we have pockets of business where we're extremely happy with the way things are progressing. For example, multifamily homes, we still have a strong backlog, but I think that's a market topic, not necessarily a JELD-WEN topic. So that remains solid.

Within the retail side, of the world and also traditional, we're seeing pockets, as we said, wood windows continues for us to be a very promising area where our lead times are in a pretty good place compared to what we think the market reality is in Europe, it's more of a mix between residential and commercial.

Residential is struggling significantly, as we know, to the tune of 50% down, 40%, 50% down in certain Northern European markets. Commercial is still there, and a lot of the commercial projects that were released 1 year or 2 years ago are being built out and coming to completion. We do see the pipeline tightening. So we expect that commercial also in the back half of the year will create some additional headwinds into the European market, and that's why we also feel that we need to remain cautious because there are, I'd say, more uncertainties than optimistic signals right now in general as to where the market could go.

Operator

And the next question comes from the line of Phil Ng with Jefferies.

Philip H. Ng
Jefferies LLC, Research Division

Congrats on a really strong start to the year. On the price cost side, you guys did an incredible job, carries through May, have you seen any increased competition on the pricing side? You've called out certainly some uncertainty on the R&R side via retail. And then on the inflation side, Julie, you highlighted energy and at least freight in North America has been a good guy. Can you kind of size up how you're thinking about inflation, what you thought coming the year and how it's kind of shaping up relatively at this point? So any color on price cost and how things are progressing?

William J. Christensen
CEO & Director

Yes. Let me -- Phil, I'll take the price side and maybe I'll ask Julie to jump into the inflation. So on price, so the short answer is, no. We're not seeing any significant changes to kind of our expectations and where things are tracking.

What we do see, and I mean, I think this is normal, as the market gets tighter, the projects coming into the market are going to have a greater competitive bid pressure. So we need to be very careful that

the deals that we're taking have appropriate margins. And that's one of the reasons why we're working hard on kind of strengthening our foundation to make sure our cost structure is in line, so we can be competitive and win some of the projects, but we're being selective. And coming back to wood against vinyl, we're really focusing on delivering strong value in the wood window business, and we think we have a great value proposition. And as we said, there is significant pressure on volume and price in the vinyl area. So we're really being cautious and careful as to what we're doing there. But I'll hand it over to Julie on the inflation.

Julie C. Albrecht
Executive VP & CFO

Yes, sure, Bill. Yes, I mean, it's a good news story and we highlighted this morning, especially in Europe with energy definitely being well below our initial expectations. But we were expecting inflation in the first quarter all in to be around 10%. We came in at around 8%. And that again was driven by the lower outbound freight and the lower energy noting, however, that those are relatively smaller pieces of our total inflation and spend.

But nonetheless, those 2 items kind of again brought our 10% down to 8% from an expected actual basis. So all in, I think in February, I mentioned we thought our inflation this year would be in that 8% to 10% range. And so we have dialed that back a little bit to be more like 6% to 8%. Again, mostly still driven by these trends in outbound freight and energy. Although as Bill has already talked about a lot today, still a lot of uncertainty in this macro environment and in our core regions. But nonetheless, that's where we're -- that's what we saw in Q1 and what we're looking at for the year.

Philip H. Ng
Jefferies LLC, Research Division

And then from a capital deployment standpoint going forward, Bill, you're pretty clear that you want to get under 3x by the end of this year. When we kind of work through 2023 and beyond, what are some of the core priorities? How do you want to keep leverage going forward? And you talked about, you want to invest in what's core to you. And clearly, North America and Europe is core to you. But are there any products and areas where it's core to you and there's a void that you wanted to kind of get bigger and where you see more opportunities from a growth and return standpoint going forward?

William J. Christensen
CEO & Director

Yes. So we're thinking about capital allocation in the following way. Clearly, debt repayment is top of our list, and we've shared that view and we feel pretty solid. We can go through the math if appropriate. But we think we're going to get to around 3x by the end of the year, and we need to be below 3x, which is clearly our aspiration. Then we need to invest in ourselves, so we need to kind of balance the debt repayment versus the investment to strengthen the foundation.

Obviously, as we improve the EBITDA, the leverage ratio will decline. We're continuing to screen the market for bolt-ons. I mean we're not silent here, but we do have some homework to do on the capital structure before we get back into the market. But we are looking -- and share repurchase is clearly a lower priority for us on the list of actions when we just kind of go through available capital.

If we think about where we want to play, how we want to win, these are the discussions that we're now starting with the organization. So the first thing we're doing is we're pushing down and creating clear visibility on the lines of business. Second is that we're working together with the North American and the European team to really understand how do they see developing their portfolio. And as we know, we have a very broad portfolio. So we have a lot of fantastic opportunities. Our view clearly is that we need to pick some of those opportunities and really go at them with the appropriate resources, capital allocation and innovation pipelines.

So that's what we're working on. It's too early to share detail and specifics. But we're seeing a lot of great things that we're doing. And our challenge as a leadership team is really going to be around the

sequencing and funding to really strengthen those 2 core areas, North America and Europe, and obviously, the line of businesses in each of them.

Operator

[Operator Instructions] Our next question comes from the line of Mike Dahl with RBC Capital Markets.

Michael Glaser Dahl
RBC Capital Markets, Research Division

First question is still on Europe. I guess, when I take a step back and look at this, the market structure is different there. You've talked about the current pressures, the risks ahead. If I look back at the profitability over the last 5 years, it's been lagging both on kind of an absolute basis and relative even with some of the actions that you're now taking, you're looking at another restructuring here. I mean, why is this core to your business at this point? You've already jettisoned Australasia. Why not take a strategic look at Europe and say, "Hey, maybe this isn't really the right place for our capital anymore?"

William J. Christensen
CEO & Director

So thanks for the question, Mike. So clearly, we need to delever, and we need simplify and these are 2 of the key things that we've been able to achieve by signing the Australasian agreement. And we're anticipating, obviously, getting to a close. So that will be a big step forward for us.

And we don't have the 3 legs on the chair, we have 2. And both need to be strengthened. There's no question. If we look at Europe. Europe, we have some leading brands in leading markets. And we have a very strong platform. And I believe, as does our team there, we can do a lot more. So clearly, we're working now through the plans, the lift, the work streams, the cost to achieve to get ourselves into, I'd say, a level of profitability that we feel is appropriate. And clearly, with the platform and the baseline that we have, we really need to deliver first, and that's also for North America. And then we'll assess after we have kind of our plan to achieve, what we really think are the viable bigger-picture options.

But again, great brands in great markets and a strong portfolio of good local teams. So we're really focused on self-help and controlling what we can control. And I believe personally that we haven't done a great job of that in the past, and that's what we want to prove to the capital market that we're capable of doing and delivering.

Michael Glaser Dahl
RBC Capital Markets, Research Division

Okay. That's helpful. My second question, I know you're always limited on what you can say about Towanda, but just kind of an update. That process has still been dragging out? Where do we stand? And should we also think about, given your stated capital allocation targets, when that ultimately comes to fruition that, that capital that you received would also be funneled towards debt pay-down? Just any thoughts you can provide on that process?

William J. Christensen
CEO & Director

I appreciate the question, Mike. Obviously, this is a court order divestiture. It's an active process, as we've shared in the past. Unfortunately, currently, no new news to report, and I'm not in a position to say anything more outside of. As soon as we have more detail that's relevant to share with the market, we will do that. That's where we are on the Towanda divestment process currently.

Operator

And the next question comes from the line of Truman Patterson with Wolf Research.

Trevor Scott Allinson
Wolfe Research, LLC

This is Trevor Allinson on. First one, previously, I think you just talked about reducing inventories by at least $50 million from where you guys at in 4Q. Looks like you've made some pretty good progress on that already. Wondering if there's any update, if you're going to take that down further or $50 million is still a good target?

Julie C. Albrecht
Executive VP & CFO

Yes, we're still -- our outlook remains lower working capital by kind of roughly $100 million during this year. So adding a really a key part of our cash flow generation. And yes, I'd just say inventory is a big part of that, and we still are targeting roughly 50% of that coming from lower inventory. So we did have a pretty solid start to the year.

I mean, Q1 does tend to build working capital for various reasons. A lot of seasonality there as we start the year, but coming out of the kind of slower year-end typically. But yes, still on track. A lot of activity, really one of our top priorities along with profit improvement is cash flow generation, including lower working capital.

Trevor Scott Allinson
Wolfe Research, LLC

Okay. And then a quick one on Auraline and VPI. You guys are ramping those businesses throughout 2022. Just provide any color on what kind of benefit those provided in 1Q or maybe what you're expecting on a year-over-year basis in 2023 in North America from those businesses?

William J. Christensen
CEO & Director

Yes. So we're ramping. I was in one of our plants here locally a few weeks back just to see the progress of the lines that we're putting in. So we're still in the process of ramping up. We have a very robust pipeline, kind of 6 months out is where we have visibility, and we're locked in. So we continue really to like the business. Obviously, it's a small piece that we're growing rapidly today. So we won't share details on kind of size.

But it's an over-proportional growth rate in a very interesting area of the market, and we like a lot. So we're going to continue that growth just based on the good multifamily market dynamics currently and our good position to serve that.

Operator

And there are no further questions at this time. James Armstrong, I'll turn the call back over to you.

James Armstrong

Thank you for joining our call today. If you have any follow-up questions, please reach out, I would be happy to answer any of your questions. This ends our call, and please have a great day.

Operator
And this concludes today's conference call. You may now disconnect.